

Red
Owl
Stores,
Inc.
Annual
Report

For
period
ended
Feb. 29,
1964



RED OWL



This is a book about people... people on both sides of the cash register. Officially, these 20 pages are called an annual report and, as expected, they're filled with figures. But behind the success of any business enterprise like Red Owl there is the story of the successful interchange between two groups of people—the company and its customers.

Contents

Highlights	2
Letter to shareholders and employees	3
Review of the year's operations	5
Facilities chart	8
Coon Rapids family center	10
Consolidated statement of operations and retained earnings—Red Owl Stores, Inc. and Consolidated Subsidiaries	12
Consolidated balance sheet—Red Owl Stores, Inc. and Consolidated Subsidiaries	13
Combined balance sheet and statement of earnings and retained earnings—Wholly-owned Realty Subsidiaries of Red Owl Stores, Inc.	14
Source and use of funds	15
Notes to financial statements	16, 17
Directors and officers	18, 19
Comparison charts	20
How the sales dollar was divided	20
Ten year record of growth	21
Accountants' Report	21

The annual stockholders' meeting will be held on June 2, 1964 at the office of the Corporation. A proxy statement and form of proxy will be mailed in May, 1964.



Highlights

	FISCAL YEAR ENDED		
	Feb. 29, 1964	Mar. 2, 1963	Percentage Increase (Decrease)
Retail sales	\$236,994,194	\$244,015,587	(2.9)%
Agency and other wholesale sales	59,075,999	55,927,834	5.6 %
Total	\$296,070,193	\$299,943,421	(1.3)%
Earnings			
Net earnings for year	\$ 2,768,398	\$ 2,652,918	4.4 %
Reinvested in business	\$ 1,418,257	\$ 1,436,263	(1.3)%
Earned per share common*	\$ 1.87	\$ 1.77	5.6 %
Number of common shares outstanding*	1,480,221	1,498,106	(1.2)%
Dividends per share*.	\$.90	\$.82½	9.1 %
Net working capital**.	\$ 16,867,889	\$ 18,478,344	(8.7)%
Ratio of current assets to current liabilities	2.02 to 1	2.23 to 1	
Book value per share common*.	\$ 18.29	\$ 17.45	

* Figures for 1963 are shown on the basis of a two-for-one stock split distribution on March 22, 1963.

** Excluding wholly-owned realty subsidiaries.



To our shareholders and employees:

It is gratifying to report that earnings on a per share basis reached a record high during the fiscal year ended February 29, 1964—an increase of 5.6% over the previous year.

Total sales amounted to \$296,070,193 compared with \$299,943,421 in the prior fiscal year. Sales declined 1.3% reflecting the sale of the Chicago division stores in March 1963. We are pleased to report that the major portion of Chicago sales was regained in other areas during the year, and that sales are currently ahead of a year ago.

Consolidated net earnings amounted to \$2,768,398, equal to \$1.87 per share, compared with \$2,652,918 or \$1.77 per share in the previous year. An increase in the number of shares outstanding due to conversion of debentures and stock options exercised was more than offset by the acquisition of 30,000 treasury shares near the year-end.

Dividend payments for the year totaled 90 cents per share. In eight of the past ten years, the cash dividend payment to shareholders has increased over each of the preceding years.

Expansion activities were stepped up with the opening of 11 conventional supermarkets, 3 drug stores, and 2 smaller Red Owl Family Center type units. Food processing, too, was extended both through new facilities and additions to existing operations. While our primary consideration in food processing is to obtain products of controlled quality, we also evaluate each from a financial standpoint before proceeding.

Our expansion program for the year ahead will be one of the largest in the Company's history. Plans call for opening 18 supermarkets, two drug stores and a 44,000 square foot Family Center. This will be the first of several large Family Centers. However, its outcome will be carefully reviewed before proceeding with similar operations at other sites which are being considered.

At the same time, we expect to develop the Agency business at an accelerated rate, both through new accounts in existing areas and through expansion to contiguous areas. Other processing operations are being studied. The Hopkins plant will be remodeled and will include bakery facilities for producing frozen baked goods.

The Company's financial position is strong and there are no plans for new financing to carry out the foregoing expansion plans.

The outlook for the nation's economy appears to be favorable. While competition in the supermarket industry continues to be keen, there is evidence of slightly more stability in our business. At this time we are optimistic about the year ahead and look forward to increases in both sales and earnings.

CHAIRMAN OF THE BOARD

PRESIDENT





Review of the year's operations

SALES DROP AS STORES ARE SOLD. Net sales for the year ended February 29, 1964 amounted to \$296,070,193, compared with \$299,943,421 a year earlier. Retail sales declined 2.9%, reflecting the sale of the Chicago stores at the beginning of the fiscal year. Agency and other wholesale volume increased 5.6%.

EARNINGS CONTINUE TO RISE. Earnings were again higher than in the preceding year despite heavy promotional expenses and the costs involved in opening a considerably larger number of new stores.

Consolidated net earnings after taxes amounted to \$2,768,398, compared with \$2,652,918 in the previous fiscal year. Per share earnings rose 5.6% to a new high of \$1.87 from \$1.77.

The Board of Directors has authorized the purchase, privately or in the open market, of a limited number of shares of the Company's stock. Such acquired shares will offset, in part, increases in stock due to shares issued for acquisitions, stock options and conversions of debentures. Late in the year, 30,000 shares were acquired for the Company's treasury. Although new shares were issued during the year, this purchase resulted in a net decrease of 17,885 in the number of shares outstanding at year-end.

DIVIDEND PAYMENTS HIGHER. Quarterly cash dividends were paid at the rate of 22½ cents per share. Payments totaled 90 cents per share, compared with 82½ cents in the previous year. Red Owl has paid a cash dividend on its common stock every year since 1933.



Review of the year's operations (Continued)

FINANCIAL CONDITION STRONG. The Company's financial condition is good. Net working capital at year-end amounted to \$16,867,889. The ratio of current assets to current liabilities was 2.02 to 1.

During the year a total of \$3,317,096 was invested in fixtures, equipment and leaseholds. Depreciation and amortization amounted to \$2,496,606. A statement of the Company's source and use of funds is included later in this report.

It should be noted that a significant portion of the real estate utilized by Red Owl is owned by subsidiaries. Such properties are financed primarily by debt, which is not guaranteed by the parent company except for its lease liability. In this way, substantial residual values are being retained without extending the parent company's credit position.

EXPANSION ACTIVITY INCREASES. The year's expansion program was about double that of the preceding year. Eleven supermarkets, three drug stores and two of the smaller Family Center type stores were opened.

The Agency Division, which serves independent retailers operating under the Red Owl name on a franchised basis, continued to show gains during the past year. Several steps were taken to speed up the growth of this segment of the business. Among them was formation of a subsidiary to assist operators in financing and developing new locations.

PROCESSING OPERATIONS EXTENDED. Red Owl operates bakeries at its distribution points and several in-the-store type. New equipment is being installed in Hopkins for the production of high

quality frozen baked goods, a line which is enjoying rapid growth, to supplement the fresh line. In addition to the bakeries, the Company operates a coffee roasting and tea packaging plant, a central packaging facility for meat and cheese, a candy and nut packaging plant, and a delicatessen manufacturing unit. Further investment in and expansion of the egg production facilities was made during the year, and it is expected the project will be completed in June. The Company is studying other possibilities for future development.

OTHER OPERATIONS. In order to increase its growth opportunities, Red Owl continues to explore other areas of merchandising, particularly those which may be natural adjuncts to the supermarket business. Examples are the two wholly-owned trading stamp companies and Snyder's Drug Stores. Snyder's operates 25 drug stores as well as the drug and prescription departments in the Family Centers.

Radio Station KRSI, a subsidiary which serves the Twin Cities, is now a profitable operation. Its business has doubled since it was acquired and further gains are in prospect.

An experiment with two coin-operated laundry and dry cleaning units adjacent to company supermarkets is being closely studied to determine its future possibilities.

ORGANIZATION CHANGES. During the year several changes occurred in the Company's management. Alf L. Bergerud retired as President on December 1, 1963 and was succeeded by James A. Watson, who was also elected a Director.

RED OWL





Review of the year's operations (Continued)

Mr. Watson has been associated with Red Owl for 17 years and was formerly Vice President in charge of Retail Operations. Mr. Bergerud has been retained as Legal Counsel and Consultant and as a member of the Board of Directors.

Merle R. Getten, who has been with the Company 18 years, was elected Vice President in charge of Retail Operations. Neil Elkey, operating head of the Wisconsin Division, was named an Assistant Vice President.

A. L. Nordstrom, Assistant Secretary, retired, and Neil A. Riley, Assistant Vice President, resigned on February 1, 1964.

It is with deep regret that the death of Merrill Cohen, a valued Director since 1958, must also be recorded in this report.

LOOKING AHEAD. An ambitious program has been

planned for the coming year. Most of the supermarket expansion will be in the metropolitan areas of the Twin Cities, Denver, and Milwaukee, all of which appear to offer further opportunities for profitable growth. Other segments of the business, too, will be expanded at a greater pace.

Considerable effort is being made to reduce operating costs through increased efficiency. As part of this program, data processing equipment will be further utilized for better inventory control with more centralized buying. This should result in reduced investment in merchandise as well as substantial cost savings. A major improvement in the Hopkins plant facilities is contemplated for the year.

The industrial engineering staff has made good progress in reducing costs and improving productivity, and further advances are anticipated.

<i>Facilities</i>	IOWA	MICH.	MINN.	MONT.	NO. DAK.	SO. DAK.	WISC.	WYO.	COLO.	TOTAL
<i>Corporate Stores</i>	3	9	69	2	20	19	32	2	14	170
<i>Agency and Wholesale Accounts</i>	7	18	127		47	27	73		155	454
<i>Drug Stores</i>			24				1			25
<i>Principal Warehouses</i>			2		1		1		1	5

The world is our garden. From Chile come pumas; Venezuela, watermelons; from Hawaii, pineapples. From all over the world comes produce to ensure our customers the widest variety possible. It's the sort of service we extend in the fruit and vegetable department of a Red Owl Store.





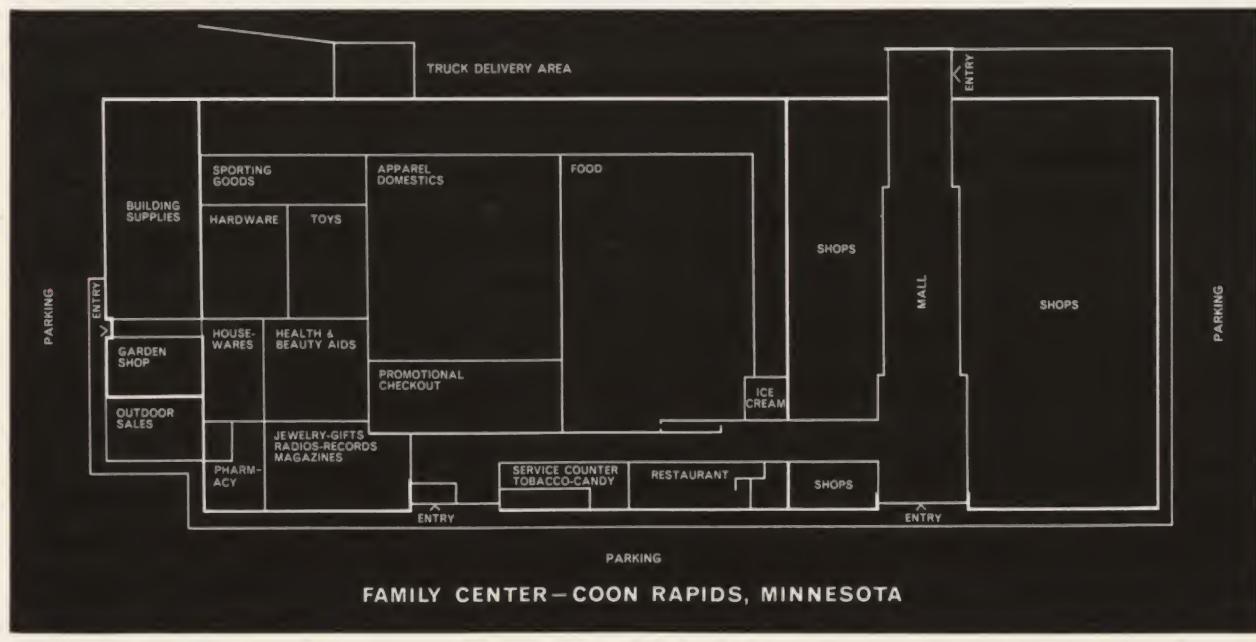
Coon Rapids Family Center

Though two smaller Red Owl Family Center type units were opened in Faribault and Austin, Minnesota during the past year, the first typical major center has been scheduled for opening later in April, 1964 in Coon Rapids, located in the Twin City metropolitan area.

Red Owl Family Centers are designed to serve most of the family needs for convenience items. They combine a supermarket, drug and prescription departments, variety merchandise, soft goods

and other household products in a single store. The drug and prescription department will be under Snyder's management. High quality merchandise is featured at attractive prices. At this time this type operation appears to fill a growing need and to offer good potential. Other sites for similar units are being considered but will not be developed until the results at Coon Rapids have been carefully examined to determine the Company's future interest in this type operation.

Below you see the floor plan showing Red Owl's newest merchandising concept at Coon Rapids, Minnesota.





Red Owl Stores, Inc. and Consolidated Subsidiaries

Consolidated Statement of Operations and Retained Earnings Year ended February 29, 1964 (with comparative figures for the previous year)

	YEAR ENDED	
	Feb. 29, 1964	Mar. 2, 1963
Net sales:		
Retail	\$236,994,194	244,015,587
Wholesale	59,075,999	55,927,834
	<hr/>	<hr/>
	296,070,193	299,943,421
Costs and operating expenses:		
Cost of goods sold, including warehousing and transportation expenses	242,982,670	246,725,463
Selling, general and administrative and other operating expenses	47,180,823	47,220,422
	<hr/>	<hr/>
	290,163,493	293,945,885
Operating earnings	5,906,700	5,997,536
Other deductions (income):		
Interest (on long-term debt	443,462	510,588
(other	3,729	7,478
Miscellaneous deductions	160,554	85,218
Gain on disposal of property and equipment—net	(42,804)	(53,966)
Miscellaneous income	(250,515)	(132,751)
	<hr/>	<hr/>
	314,426	416,567
Earnings before taxes on income	5,592,274	5,580,969
Federal and State taxes on income, estimated (note 3)	2,980,000	3,048,000
	<hr/>	<hr/>
Net earnings before undistributed earnings of wholly-owned realty subsidiaries	2,612,274	2,532,969
Net earnings of wholly-owned realty subsidiaries	156,124	119,949
	<hr/>	<hr/>
Net earnings	2,768,398	2,652,918
Deduct dividends on Red Owl Stores, Inc. common stock— \$.90 and \$.82½ per share in respective years	1,350,141	1,216,655
	<hr/>	<hr/>
1,418,257	1,436,263	
Retained earnings at beginning of year—unappropriated	14,978,619	13,542,356
	<hr/>	<hr/>
Retained earnings at end of year:		
Unappropriated (notes 1 and 4)	16,396,876	14,978,619
Appropriated for possible future inventory losses	285,000	285,000
	<hr/>	<hr/>
Total at end of year	\$ 16,681,876	15,263,619
	<hr/>	<hr/>

See accompanying notes to financial statements.

Red Owl Stores, Inc. and Consolidated Subsidiaries

Consolidated Balance Sheet

February 29, 1964 (with comparative figures for the previous year)

Assets

Current assets:

	Feb. 29, 1964	Mar. 2, 1963
Cash and certificates of deposit	\$ 5,081,679	5,273,715
Marketable securities, at cost plus accrued interest (approximate market)	995,710	1,493,099
Accounts and notes receivable, less allowance for doubtful receivables \$85,827	2,552,374	2,495,459
Merchandise inventories (note 2)	23,684,185	22,181,605
Prepaid expenses	1,148,637	1,253,846
Properties subsequently sold	—	814,116
Total current assets	<u>33,462,585</u>	<u>33,511,840</u>

Investments and other assets:

	Feb. 29, 1964	Mar. 2, 1963
Investments in and advances to wholly-owned realty subsidiaries not consolidated, at net equity value (note 1)	2,639,685	1,949,705
Miscellaneous	1,009,172	983,814
Property, plant and equipment, at cost less depreciation and amortization (note 3)	3,648,857	2,933,519
Deferred charges	13,741,193	12,817,983
Radio station license and goodwill, at cost	<u>243,383</u>	<u>241,013</u>
	<u>\$52,120,565</u>	<u>50,605,045</u>

Liabilities

Current liabilities:

	Feb. 29, 1964	Mar. 2, 1963
Current instalments of long-term debt	\$ 715,000	788,332
Accounts payable	9,330,598	8,295,993
Accrued expenses	4,627,269	4,141,089
Federal and State taxes on income, estimated	1,921,829	1,808,082
Total current liabilities	<u>16,594,696</u>	<u>15,033,496</u>
Deferred Federal taxes on income and investment credit (note 3)	1,453,556	1,420,443
Long-term debt, less current instalments included above (note 4)	6,999,000	8,003,100

Stockholders' equity:

	Feb. 29, 1964	Mar. 2, 1963
Preferred stock—par value \$100 per share. Authorized 50,000 shares; none outstanding	—	—
Common stock—no par value, stated value \$1.50 per share. Authorized 3,000,000 shares; issued 1,510,221 shares (1,498,106 in 1963) (note 5)	2,265,332	2,247,159
Additional amounts paid in by stockholders (note 6)	8,838,605	8,637,228
Retained earnings (notes 1 and 4), per accompanying statement	<u>16,681,876</u>	<u>15,263,619</u>
Less common stock held in treasury, 30,000 shares, at cost	<u>27,785,813</u>	<u>26,148,006</u>
Commitments (note 7)	<u>712,500</u>	<u>—</u>
	<u>27,073,313</u>	<u>26,148,006</u>
See accompanying notes to financial statements.	<u>\$52,120,565</u>	<u>50,605,045</u>

Wholly-owned Realty Subsidiaries of Red Owl Stores, Inc.

Combined Balance Sheet

February 29, 1964 (with comparative figures for the previous year)

	Feb. 29, 1964	Mar. 2, 1963
Assets		
Cash	\$ 54,752	188,845
Accounts receivable	18,342	179,840
Prepaid expenses	2,626	2,505
Property and plant, at cost less depreciation (note 3)	8,977,523	8,224,533
Deferred charges	60,274	60,191
	<u>\$9,113,517</u>	<u>8,655,914</u>
Liabilities		
Current instalments of long-term debt	\$ 403,765	391,457
Accounts payable and accrued expenses	127,109	57,348
Federal and State taxes on income, estimated	91,064	45,068
Due to Red Owl Stores, Inc.	1,741,519	1,207,663
Deferred Federal taxes on income and investment credit (note 3)	231,654	188,331
Long-term debt, less current instalments above (note 4)	5,620,240	6,024,005
Investment of Red Owl Stores, Inc.:		
Capital stock	130,000	130,000
Additional paid-in capital	54,000	54,000
Retained earnings, per statement below	714,166	558,042
	<u>898,166</u>	<u>742,042</u>
	<u>\$9,113,517</u>	<u>8,655,914</u>

Combined Statement of Earnings and Retained Earnings

Year ended February 29, 1964 (with comparative figures for the previous year)

	YEAR ENDED	
	Feb. 29, 1964	Mar. 2, 1963
Revenue and other income:		
Rents from Red Owl Stores, Inc.	\$ 822,222	787,883
Rents from others and miscellaneous	147,154	42,755
	<u>969,376</u>	<u>830,638</u>
Expenses and other deductions:		
Depreciation and amortization	287,451	250,368
Interest	318,639	290,551
Amortization of debt expense	8,366	8,147
Miscellaneous	71,796	49,623
	<u>686,252</u>	<u>598,689</u>
Earnings before taxes on income	283,124	231,949
Federal and State taxes on income, estimated (note 3)	127,000	112,000
Net earnings	156,124	119,949
Retained earnings at beginning of year	558,042	473,886
Accumulated loss of subsidiary at date acquired	—	(35,793)
Retained earnings at end of year	<u>\$ 714,166</u>	<u>558,042</u>

See accompanying notes to financial statements.

Year ended February 29, 1964

Source and use of funds (with comparative figures for the previous year)

Red Owl Stores, Inc. and Consolidated Subsidiaries

	YEAR ENDED	
	Feb. 29, 1964	Mar. 2, 1963
Funds provided from:		
Net earnings before undistributed earnings of realty subsidiaries	\$2,612,274	2,532,969
Depreciation and amortization of property	2,496,606	2,536,780
Deferred income taxes and investment credit—net	33,113	224,105
	<u><u>\$5,141,993</u></u>	<u><u>5,293,854</u></u>
Funds used for:		
Property and equipment additions—net:		
Land and buildings	\$ 262,942	707,827
Fixtures, equipment and leasehold improvements	3,317,096	2,466,011
Less net book value of dispositions	(160,222)	(1,344,933)
	<u><u>3,419,816</u></u>	<u><u>1,828,905</u></u>
Repurchases (sales and exchanges) of common stock—net	492,950	(2,565,494)
Cash dividends paid to stockholders	1,350,141	1,216,655
Reduction in long-term debt, including debenture conversions	1,004,100	944,900
Increase in investments in and advances to realty subsidiaries	533,856	604,728
Increase (decrease) in other assets—net	(48,415)	57,791
Increase (decrease) in working capital	<u><u>(1,610,455)</u></u>	<u><u>3,206,369</u></u>
	<u><u>\$5,141,993</u></u>	<u><u>5,293,854</u></u>
 Wholly-owned Realty Subsidiaries of Red Owl Stores, Inc.		
Funds provided from:		
Net earnings	\$ 156,124	119,949
Depreciation and amortization of property	287,451	250,368
Deferred income taxes and investment credit—net	43,323	72,483
Increase in investment and advances by Red Owl Stores, Inc.	533,856	604,728
	<u><u>\$1,020,754</u></u>	<u><u>1,047,528</u></u>
Funds used for:		
Property and equipment additions:		
Land and buildings	\$1,040,221	1,477,208
Equipment	220	345,295
	<u><u>1,040,441</u></u>	<u><u>1,822,503</u></u>
Reduction (increase) in long-term debt	403,765	(1,012,362)
Increase in other assets	83	5,837
Decrease (increase) in working capital deficit	<u><u>(423,535)</u></u>	<u><u>231,550</u></u>
	<u><u>\$1,020,754</u></u>	<u><u>1,047,528</u></u>

Notes to Financial Statements Year ended February 29, 1964

NOTE 1. The accompanying consolidated financial statements include the accounts of Red Owl Stores, Inc. and all active subsidiaries except seven wholly-owned realty subsidiaries for which combined financial statements are included in this report.

Investments in and advances to the unconsolidated wholly-owned realty subsidiaries are stated in the consolidated balance sheet at the Company's equity in the net assets of such subsidiaries. Consolidated retained earnings include their net undistributed earnings from dates of organization or acquisition.

NOTE 2. Merchandise inventories of dry groceries in retail stores are valued at the lower of cost or market determined by the retail inventory method; merchandise inventories in drug stores were valued at lower of cost or market at various dates during the last three months of the fiscal year and have been adjusted for transactions to February 29, 1964 on the basis of gross profit percentages; warehouse and other inventories are valued at the lower of cost (first-in, first-out) or replacement market. Details of merchandise inventories are as follows:

	1964	1963
Retail stores	\$ 9,109,746	8,729,799
Warehouses	13,336,799	12,391,008
Other and in transit	<u>1,237,640</u>	<u>1,060,798</u>
	<u><u>\$23,684,185</u></u>	<u><u>22,181,605</u></u>

NOTE 3. Property, plant and equipment, at cost less depreciation and amortization, and related depreciation and investment credit policy are summarized as follows:

	RED OWL STORES, INC. AND CONSOLIDATED SUBSIDIARIES	WHOLLY-OWNED REALTY SUBSIDIARIES
Land	\$ 395,471	1,521,936
Buildings	716,641	8,085,357
Buildings on leased land	—	505,534
Furniture, fixtures and equipment	20,022,723	345,515
Automotive equipment	<u>3,636,689</u>	<u>—</u>
	<u>24,771,524</u>	<u>10,458,342</u>
Less depreciation and amortization	<u>13,090,405</u>	<u>1,480,819</u>
	<u>11,681,119</u>	<u>8,977,523</u>
Leasehold improvements, at cost less amortization	1,726,086	—
Construction in progress and property held for sale	<u>333,988</u>	<u>—</u>
	<u><u>\$13,741,193</u></u>	<u><u>8,977,523</u></u>

Depreciation charges against earnings have been computed by the straightline method; for income tax purposes, however, depreciation on certain buildings and on fixtures and equipment acquired since 1954 has been computed by accelerated methods. Provision has been made for deferred income taxes applicable to the excess of depreciation claimed for tax purposes over amounts charged against earnings. Portions of deferred income taxes will be used to reduce provisions for Federal income taxes in future years when depreciation charges against earnings exceed amounts deductible for tax purposes.

The investment credit under the Revenue Act of 1962, \$166,446 for Red Owl Stores, Inc. and consolidated subsidiaries in 1964, has been recorded as a reduction of current Federal income taxes payable and as an increase in deferred Federal taxes on income and investment credit. The effect of the credit on earnings, \$19,833 (\$2,290 for wholly-owned realty subsidiaries) in 1964, is being recognized as a reduction in the provision for Federal taxes on income ratably over the estimated lives of the related property.

NOTE 4. Long-term debt, less instalments due within one year and cash held by trustee for current redemptions, and related restrictions are summarized as follows:

	RED OWL STORES, INC. AND CONSOLIDATED SUBSIDIARIES	WHOLLY-OWNED REALTY SUBSIDIARIES
3 1/2% notes due July 1, 1966	\$ 600,000	—
5 1/2% notes due October 1, 1972	2,400,000	—
5 3/4% note due January 1, 1975	3,350,000	—
4 3/4% convertible subordinated debentures due February 1, 1978	649,000	—
6 1/4% mortgage note due October 15, 1975	—	260,300
5 1/2% mortgage notes, \$523,818 due September 10, 1977 and \$317,486 due December 1, 1978	—	841,304

Notes to Financial Statements (Continued)

	RED OWL STORES, INC. AND CONSOLIDATED SUBSIDIARIES	WHOLLY-OWNED REALTY SUBSIDIARIES
5½% mortgage notes, \$819,502 due September 1, 1980, \$172,982 due August 1, 1981, \$368,993 due December 1, 1981, \$184,036 due June 1, 1982, and \$153,754 due March 1, 1983	—	1,699,267
Sinking fund mortgage bonds:		
4% due June 1, 1969, Series A	—	283,000
4½% due March 1, 1970, Series B	—	164,500
4½% due December 1, 1975, Series C	—	1,123,500
4¾% due December 1, 1977, Series D	—	470,925
4¾% due December 1, 1982, Series E	—	647,500
Equipment purchase contract due March 23, 1967	—	129,944
	<u>\$ 6,999,000</u>	<u>5,620,240</u>

Aggregate annual maturities and sinking fund requirements in the five fiscal years subsequent to February 27, 1965 for Red Owl Stores, Inc. and consolidated subsidiaries and wholly-owned realty subsidiaries, respectively, are as follows: 1966, \$715,000 and \$414,584; 1967, \$835,000 and \$423,947; 1968, \$675,000 and \$368,741; 1969, \$675,000 and \$367,287; 1970, \$675,000 and \$337,017.

The mortgage notes and sinking fund mortgage bonds are variously secured by warehouse and store properties and the wholly-owned realty subsidiaries' interests in related long-term leases to the Company. The 4¾% subordinated debentures are convertible into shares of the Company's common stock at \$16¾ per share, subject to adjustment under certain conditions.

Restrictions on payment of dividends (except stock dividends) and purchase, redemption or retirement of capital stock are imposed by the terms of agreements relating to the Company's 3⅓% notes, 5½% notes, 5¾% note and 4¾% debentures. Retained earnings at February 29, 1964 free from restrictions, based on working capital and retained earnings requirements under the most restrictive of the agreements amount to approximately \$2,900,000.

NOTE 5. Of the authorized common stock, 38,940 shares are reserved for issuance upon conversion of the 4¾% subordinated debentures, 45,475 shares are reserved for issuance upon exercise of options granted under the Employees' Stock Option Plan and 31,480 shares remain available for granting of future options.

Options are granted at not less than 95% of market value at dates granted and become exercisable over a period of five years commencing one year after dates granted. All options expire, subject to earlier expiration in the event of termination of employment, if not exercised within six years of dates granted. Outstanding options have been granted at prices ranging from \$17.50 to \$31.25 per share (\$21.25 in 1964); at dates of grant, shares under option had an aggregate market value of \$1,049,071, an average of \$23.07 per share. Changes during fiscal year 1964 in stock options held by key employees are summarized as follows:

	OPTIONS GRANTED		OPTIONS EXERCISABLE	
	Shares	Amount	Shares	Amount
Balance at beginning of year	44,710	\$ 978,755	16,770	\$369,465
Granted or became exercisable	7,900	167,875	9,380	208,580
Exercised	(7,135)	(139,821)	(7,135)	(139,821)
Balance at end of year	<u>45,475</u>	<u>\$1,006,809</u>	<u>19,015</u>	<u>\$438,224</u>

NOTE 6. Additional amounts paid in by stockholders during the year aggregate \$201,377 as follows: excess of amounts paid in over stated value of 7,135 shares of common stock issued upon exercise of employees' stock options, \$129,118; excess of conversion price over stated value of 4,980 shares of common stock issued on conversion of 4¾% subordinated debentures, \$75,530, less applicable portion of unamortized debenture issuance expenses, \$1,708; less expense related to issuance of common stock in previous year, \$1,563.

NOTE 7. Long-term leases, excluding leases to the Company by its wholly-owned realty subsidiaries, expiring more than three years after February 29, 1964, establish minimum annual rentals on 188 stores and three warehouses. The approximate minimum annual rentals under such leases, excluding taxes, insurance and maintenance costs payable by the Company, amount to \$3,773,000. Of this amount, leases with minimum annual rentals of \$775,000 expire in fiscal years 1968 through 1972 and leases with minimum annual rentals of \$2,998,000 (including \$379,000 applicable to properties sub-let) have terms extending into fiscal years 1973 through 1984.

Approximate minimum annual rentals on properties leased or to be leased from wholly-owned realty subsidiaries aggregate \$875,000 (including \$175,000 applicable to properties sub-let).

In addition, the Company has entered into agreements to lease store properties at new locations for initial periods of ten to twenty years at minimum annual rentals which will aggregate approximately \$339,000.

Other Commitment:

The Company's unfunded liability for past service benefits under the terms of a non-contributory salaried employees pension plan, adopted November 12, 1959, amounts to approximately \$1,746,000 at February 29, 1964.

Ford Bell



Pierce H. McDowell



Erling Rice



Alf L. Bergerud



Lawrence W. Rixe



Directors

JAMES R. ARNEILL, M.D., Executive Director and Chief Surgeon of Arneill Medical and Dental Center, Denver, Colorado

FORD BELL, Chairman of the Board of Directors, and Chief Executive Officer, Red Owl Stores, Inc.

ALF L. BERGERUD, Legal Counsel and Consultant

JOHN C. CORNELIUS, Senior Consultant and Director, Batten, Barton, Durstine & Osborn, Inc.

GLENN R. GRIFE, Red Owl Stores, Inc.

GOODRICH LOWRY, President, Northwest Bancorporation of Minneapolis

PIERCE H. McDOWELL, President
Howalt-McDowell, Inc., Sioux Falls, South Dakota

DONALD G. McNEELY, Vice President,
St. Paul Terminal Warehouse Company of St. Paul

ERLING RICE, Vice President, Red Owl Stores, Inc.

LAWRENCE W. RIXE, Vice President,
Red Owl Stores, Inc.

JAMES A. WATSON, President
Red Owl Stores, Inc.

Goodrich Lowry



James A. Watson



Glenn R. Grife



James R. Arneill



Donald G. McNeely



John C. Cornelius



Officers

FORD BELL, Chairman of the Board of Directors and Chief Executive Officer

JAMES A. WATSON, President

MERLE R. GETTEN, Vice President, Retail Operations

MICHAEL J. McMAHON, Vice President, Advertising

WILLIAM J. QUINN, Vice President, Merchandising and Procurement

ERLING RICE, Vice President, Corporate Development

LAWRENCE W. RIXE, Vice President, Finance

VERNON J. WINTER, Vice President, Warehousing, Transportation, Manufacturing and Wholesale

JOSEPH T. SYDNESS, Secretary

THOMAS R. PELLETT, Treasurer

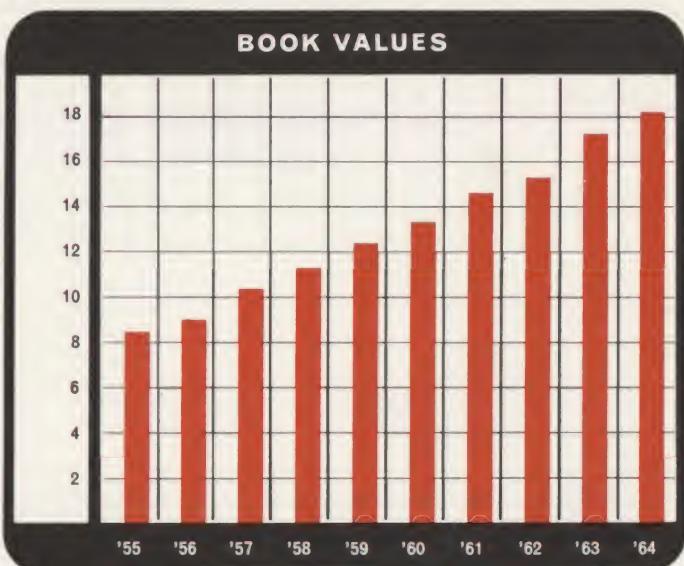
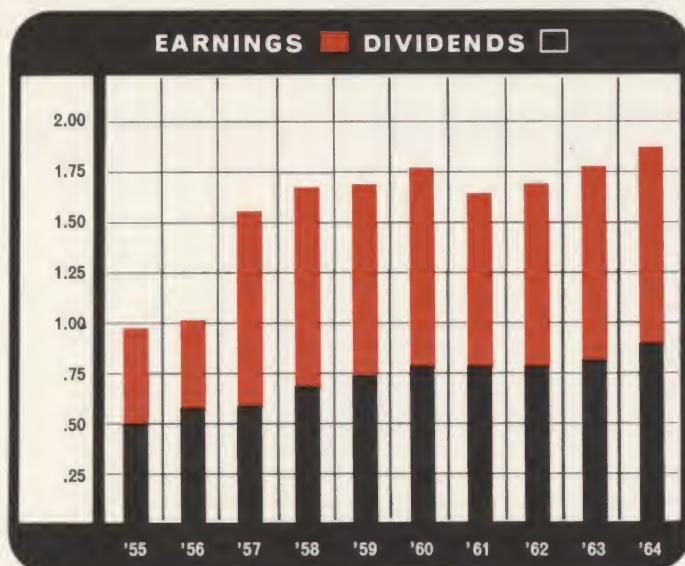
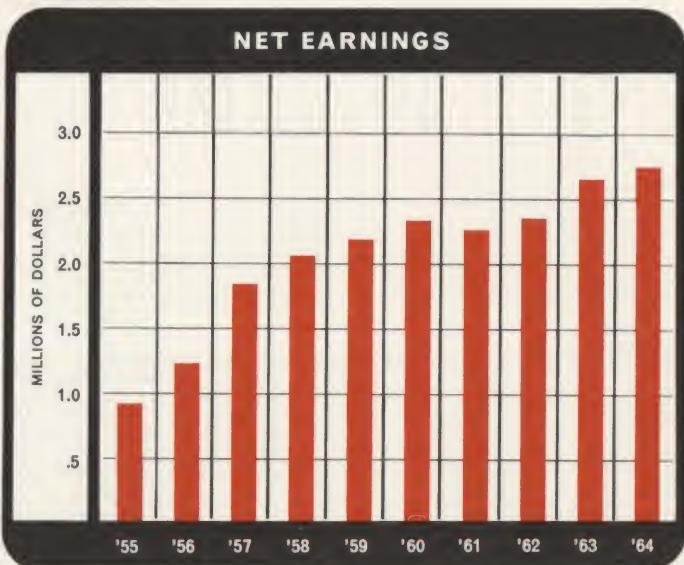
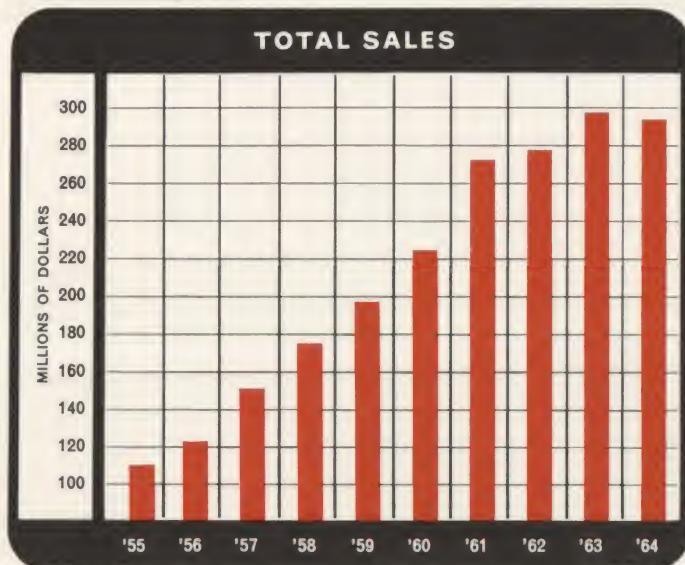
F. D. SCOTT, Controller

NEIL ELKEY, Assistant Vice President, Retail Operations

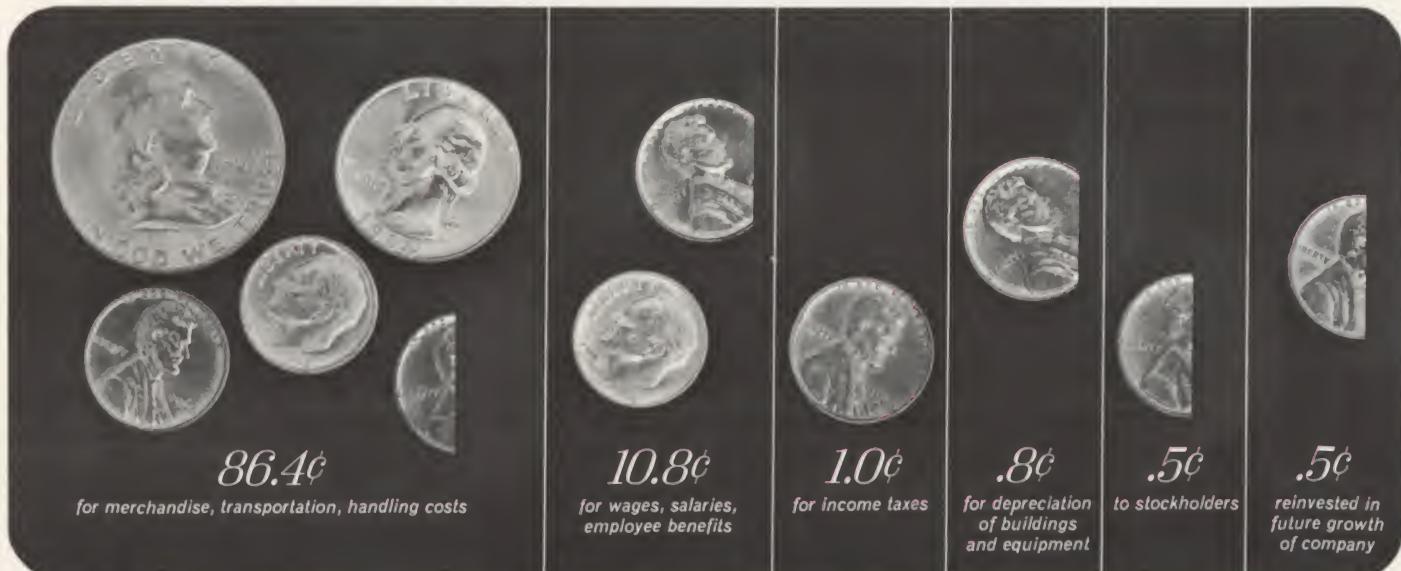
CLAYTON C. RaDUE, Assistant Vice President, Retail Operations

FRANK L. WALKER, Assistant Vice President, Agency Division

Comparison of Earnings, Dividends and Book Values



How the sales dollar was divided





*For more information about
the activities and policies of Red Owl Stores, write to ...*

RED OWL STORES, INC., HOPKINS, MINN.

Executive Offices: 215 E. Excelsior Avenue, Hopkins, Minn.

Mailing Address: Post Office Box 329, Minneapolis, 40, Minn.

Stock Transfer Agents:

*Northwestern National Bank of Minneapolis
Bankers Trust Company of New York*

Registrars:

*First National Bank of Minneapolis
Morgan Guaranty Trust Company of New York*

Auditors: Peat, Marwick, Mitchell & Co.

Ten Year Record of Growth

FISCAL YEAR ENDED IN	1964	1963	1962	1961	1960	1959	1958	1957	1956	1955
<i>(000's omitted)</i>										
Sales Retail	\$236,994	\$244,016	\$228,343	\$222,647	\$187,957	\$165,662	\$144,891	\$124,293	\$ 95,074	\$ 80,801
Wholesale	59,076	55,927	50,712	51,945	38,632	33,882	31,539	30,249	28,679	31,378
Total Sales	296,070	299,943	279,055	274,592	226,589	199,544	176,430	154,542	123,753	112,179
<i>(000's omitted)</i>										
Net earnings for year	2,768	2,653	2,374	2,248*	2,350	2,195	2,064	1,852	1,235	972
Dividends paid on Preferred Stock	—	—	—	—	—	—	—	83	112	21
Net earnings applicable to common equity	2,768	2,653	2,374	2,248*	2,350	2,195	2,064	1,769	1,123	951
Dividends paid on common stock	1,350	1,217	1,110	1,078	1,048	936	854	664	598	507
Net earnings for year retained in business	1,418	1,436	1,263	1,170*	1,302	1,259	1,210	1,105	525	309
Net earnings per share common	1.87	1.77	1.69	1.65*	1.77	1.70	1.69	1.57	1.09	.98
Dividends per share common90	.82½	.80	.80	.80	.75	.70	.62½	.60	.52½
Net Working Capital** (000's omitted)	16,867	18,478	15,272	13,468	12,720	12,921	12,866	8,424	8,369	8,055
Ratio of current assets to current liabilities**	2.02 to 1	2.23 to 1	2.14 to 1	2.12 to 1	1.98 to 1	2.25 to 1	2.37 to 1	2.06 to 1	2.24 to 1	2.48 to 1
<i>Stockholders' Equity (000's omitted)</i>										
Shares outstanding—Preferred	27,073	26,148	22,146	20,214	18,247	16,351	13,986	12,738	11,604	11,078
Common	—	—	—	—	—	—	—	9,500	18,850	25,000
Common	1,480,221	1,498,106	1,404,266	1,363,732	1,330,232	1,291,992	1,221,782	1,123,722	1,027,802	966,302
Book value per share common	18.29	17.45	15.77	14.82	13.72	12.66	11.45	10.45	9.37	8.73
Number of common shareholders	4,249	4,182	4,078	4,183	4,290	3,827	3,228	2,389	2,291	2,161
Number of food stores at close of year										
Retail	170	173	172	166	163	148	152	146	143	145
Agency and wholesale	454	450	426	423	439	354	376	419	504	556
Average sales per retail food store	1,312,000	1,341,000	1,328,000	1,341,000	1,260,000	1,119,000	953,000	851,000	665,000	557,000
Number of employees (including part time)	7,600	7,700	7,400	7,000	6,100	5,600	5,300	4,600	3,900	3,400

*Excluding a special credit of \$294,000 in 1961.

**Red Owl Stores, Inc. and consolidated subsidiaries excluding wholly-owned realty subsidiaries.

NOTE: Comparative figures have been adjusted, where applicable for the two-for-one stock distribution on March 22, 1963 to holders of record on March 15, 1963.

Accountants' Report

PEAT, MARWICK, MITCHELL & CO.

CERTIFIED PUBLIC ACCOUNTANTS

NORTHWESTERN BANK BUILDING

MINNEAPOLIS 2, MINN.

THE BOARD OF DIRECTORS AND SHAREHOLDERS
RED OWL STORES, INC.:

We have examined the consolidated balance sheet of Red Owl Stores, Inc. and consolidated subsidiaries and the combined balance sheet of wholly-owned realty subsidiaries of Red Owl Stores, Inc. as of February 29, 1964, and related statements of operations, earnings and retained earnings for the year then ended. Our examinations were made in accordance with generally accepted auditing standards, and accordingly included such tests of the accounting records and such other auditing procedures as we considered necessary in the circumstances.

In our opinion, the accompanying balance sheets and statements of

operations, earnings and retained earnings present fairly the consolidated financial position of Red Owl Stores, Inc. and consolidated subsidiaries and the combined financial position of wholly-owned realty subsidiaries of Red Owl Stores, Inc. at February 29, 1964, and the results of the related operations for the year then ended, in conformity with generally accepted accounting principles applied on a basis consistent with that of the preceding year. Also, in our opinion, the accompanying summaries of source and use of funds for the year ended February 29, 1964 present fairly the information shown therein.

Minneapolis, Minnesota
April 17, 1964

Peat, Marwick, Mitchell & Co.

